

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE DISTRICT OF
COLUMBIA PUBLIC SCHOOLS
FACILITIES' CAPITAL
IMPROVEMENT PROGRAM**



**CHARLES C. MADDOX, ESQ.
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Charles C. Maddox, Esq.
Inspector General



March 17, 2000

Arlene Ackerman
Superintendent, D.C. Public Schools
9th Floor
825 North Capitol Street, N.E.
Washington, D.C. 20002

Dear Ms. Ackerman:

Enclosed is the final report summarizing the results of our audit of the District of Columbia Public Schools Facilities' Capital Improvement Program (OIG-03-99-GA).

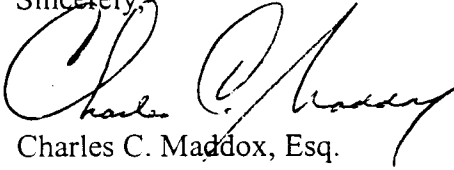
We determined that contracts awarded for Fiscal Year (FY) 1998 Capital Improvement Program (CIP) projects exceeded budgeted amounts, resulting in cost overruns of about \$8 million. As a result, complete implementation of the FY 1998 CIP budget was not achieved, with \$17 million of CIP improvement projects deferred to future periods or cancelled.

We also noted that District of Columbia Public Schools (DCPS) eliminated \$37.5 million of improvement projects from the initial CIP budget for FY 1999. Projects were cancelled because DCPS erroneously projected that \$42 million would be available from the sale and lease of excess school property to fund part of the CIP budget. The funding amount was later adjusted to a more realistic figure of \$4.5 million. Because of the deferral or cancellation of capital projects in FY 1998 and the reduction in the FY 1999 CIP budget, completion of the "immediate needs" phase of the Long Range Facilities Master Plan by the year 2000 will not be accomplished.

DCPS's response (Exhibit III) to a draft of this report was in accord with the intent of the recommendations. However, DCPS's response to recommendation 3 acknowledged a backlog of deficiencies regarding compliance with regulatory requirements but did not address the condition of the finding. The recommendation is intended to have DCPS consider the cost ramifications of complying with regulatory requirements when planning, costing and funding future capital projects.

We appreciate the cooperation and courtesies extended to our staff by DCPS personnel during the audit. If you have any questions about this audit report, please call me or John N. Balakos, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles C. Maddox".

Charles C. Maddox, Esq.
Inspector General

Enclosure

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EXHIBITS

- I - SUMMARY OF BUDGET TO ACTUAL FISCAL YEAR 1998
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- II - SUMMARY OF UNSCHEDULED FISCAL YEAR CAPITAL
PROJECTS
- III – DCPS RESPONSE TO THE REPORT, FINDINGS, AND
RECOMMENDATIONS

EXECUTIVE DIGEST

OVERVIEW

This report summarizes the Office of the Inspector General's (OIG's) audit of the District of Columbia Public Schools (DCPS) Facilities' Capital Improvement Program (CIP). The OIG performed the audit as part of the OIG Fiscal Year (FY) 1999 Audit Plan.

CONCLUSIONS

Contracts awarded for FY 1998 CIP projects exceeded the amount allocated in the DCPS capital improvement budget resulting in cost overruns of approximately \$8 million. The cost overruns were attributable to DCPS's lack of clear and concise written policies and procedures for identifying, developing, costing, and implementing capital improvement projects, lack of knowledge of regulatory requirements and unforeseen impediments that arose during construction. As a result, complete implementation of the FY 1998 CIP budget was not achieved, with \$17 million of capital improvement projects deferred to future periods or cancelled.

We also noted that DCPS eliminated \$37.5 million of projects from the initial CIP budget for FY 1999. Projects were cancelled because DCPS erroneously projected that \$42 million would be available from the sale and lease of excess school property to fund part of the CIP budget. The funding amount was later adjusted to a more realistic figure of \$4.5 million. Because of the deferral or cancellation of capital improvement projects in FY 1998 and the reduction in the FY 1999 CIP budget, completion of the "immediate needs" phase of the Long Range Facilities Master Plan by the year 2000 will not be accomplished.

We determined that the DCPS followed the District procurement regulations for awarding contracts and approval of contract cost modifications. Also, the CIP and the United States Army Corps of Engineers (USACE) provided the necessary contract oversight of the projects awarded.

CORRECTIVE ACTIONS

We directed four recommendations to the Superintendent of DCPS that we believe are necessary to correct the deficiencies noted in this report. The recommendations, in part, center on:

- Establishing clear, concise policies and procedures to meet the objectives of the CIP;
- Allowing sufficient time to properly review project designs and specifications;

- Considering the impact of regulatory requirements when planning capital projects; and
- Basing the planning and development of the capital project budget on realistic funding sources.

DCPS's responses to our draft report were responsive to correct the conditions noted. However, DCPS's response to recommendation 3 only acknowledged a backlog of deficiencies regarding compliance with regulatory requirements. The recommendation is intended to have DCPS consider the cost ramifications of complying with regulatory requirements when planning, costing and funding future capital projects.

The full text of DCPS's audit response is included in Exhibit III. We have summarized and incorporated the responses into each finding.

INTRODUCTION

BACKGROUND

The mission of the DCPS is to provide a viable and comprehensive system of publicly-supported education for students from pre-kindergarten through grade twelve. Additionally, the DCPS provides educational services for students with special needs and career training opportunities for adults at career development centers.

In the early 1990's, the DCPS faced a major problem with the deterioration of its facilities. DCPS had 157 schools, of which two-thirds were over 45 years old. Only 8 of these had been renovated. Adequate funding was not provided to properly maintain and repair the facilities.

Because of the deteriorating conditions and numerous neglected fire code violations in the schools over several years, a concerned citizens group filed a civil action against the Mayor and the Fire Chief in 1992. The lawsuit requested that a judgement be entered to: (1) require the inspection of the schools for fire code violations every six months, (2) require the defendants to re-inspect schools with 20 or more violations or one or more dangerous conditions within 60 days of initial inspection, and (3) compel the defendants to enforce the fire code in the schools. The suit also requested other relief as the court deemed just and proper. For the next four years, the Superintendent and the Board of Education was not effective in rectifying the conditions of the school facilities.

During those years, as a result of the lawsuit, the judge overseeing the case ordered the schools closed several times for fire code violations. In addition, the judge ordered that school repairs could not begin while schools were in session. This action caused delay in the construction of roof replacements and other repairs until late in the summer of 1997, and prevented the schools from opening on time.

On November 15, 1996, the D.C. Financial Responsibility and Management Assistance Authority (DCFRA) declared an emergency within the DCPS. The DCFRA delegated their authority and responsibility to a newly-created nine member Emergency Transitional Education Board of Trustees to oversee the operations of the DCPS and also appointed a new superintendent. The DCPS structure was reorganized and the DCPS Facilities Organization was created with a mandate to clear all fire code violations and develop a Long-Range Facilities Master Plan (Master Plan) to address the deteriorating conditions of the school facilities.

The Master Plan outlined specific goals and objectives that DCPS would implement to correct the deteriorating condition of the entire school facilities and set time frames for completion of specific phases. The Master Plan identified three implementation phases. The first phase was the "Emergency Capital Improvement Projects," scheduled to correct and eliminate all fire code violations and provide a safe

environment for the students. This phase was scheduled for completion by the opening of the September 1997 school year. The second phase was the “immediate needs” phase. This phase was to take place during FY 1998 and FY 1999. The third phase, “modernization,” was to begin during FY 2000 and was scheduled to be completed by FY 2007. This phase called for the full modernization and revitalization of the DCPS facilities.

The DCPS Facilities Organization was structured into two units, the CIP and Operations and Maintenance (OM). The CIP unit was responsible for implementing the various capital improvement phases of the Master Plan, and the OM unit for providing preventive maintenance and repairs to the school facilities.

The lawsuit was eventually settled when the plaintiffs and the DCFRA agreed to specific terms on November 3, 1997. In FY 1997, DCPS committed and spent \$50 million on repairs towards the DCPS Master Plan, which required projected expenditures of \$487 million. They also committed an additional \$80 million¹ to the Master Plan for FY 1998, and agreed to use all funds from the disposal of excess property toward the stabilization and functionality repairs required to eliminate all fire code violations.

To help accomplish the mission of the CIP unit, the DCPS entered into a “Memorandum of Agreement” (MOA) with the USACE on April 17, 1998, to assist in implementing the FY 1998 capital program budget. Through FY 1998 and 1999, the DCPS has initiated 13 support agreements (SA) with the USACE that have continued to expand the USACE’s role in implementing the CIP budget and assist in the continued development of the Facilities Organization within DCPS. In fact, the Superintendent designated the USACE to be the lead agency in the execution of the FY 1998 and FY 1999 capital program.

OBJECTIVES

The audit objectives were to:

- Determine if the CIP had established policies and procedures for planning capital projects;
- Determine if the FY 1998 capital projects program was conducted in compliance with applicable laws, and regulations;
- Determine if FY 1998 capital project objectives were met;
- Determine if capital project activities were properly monitored; and
- Determine if the capital project budget for FY 1999 was on target.

¹ \$80 million was stated in the settlement agreement. The actual FY 98 budget was approximately \$81,153,000.

SCOPE AND METHODOLOGY

The audit scope covered FY 1998, and transactions for FY 1998 projects through the second quarter of FY 1999. We conducted interviews with CIP and USACE personnel to obtain information regarding the current operating policies, procedures and established controls, and the extent of USACE involvement over capital projects for FY 1998 and FY 1999 operations. We reviewed prior audit reports and examined contract files, weekly status reports, project-monitoring records, and contract cost modifications. Site visits were conducted to observe monitoring by USACE. We performed an analysis of actual costs to budget project costs to determine if capital projects were initiated, were within the budget, and on target with the time frame outlined in the Master Plan dated July 17, 1997.

Additionally, we relied on the General Accounting Office's Testimony on the Status of Fiscal Year 1998 Roof Projects. The GAO gave testimony in regards to the availability of funds to implement the FY 1998 CIP budget.

Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

AUDIT RESULTS

FINDING 1: Capital Projects Exceeded Budget Allocations

SYNOPSIS Contracts awarded for FY 1998 CIP projects exceeded the amount allocated in the DCPS capital improvement budget resulting in cost overruns of approximately \$8 million. The cost overruns were attributable to DCPS's lack of clear and concise written policies and procedures for identifying, developing, costing, and implementing capital improvement projects, lack of knowledge of regulatory requirements and unforeseen impediments that arose during construction. As a result, complete implementation of the FY 1998 CIP budget was not achieved, with \$17 million of capital improvement projects deferred to future periods or cancelled.

AUDIT RESULTS The total capital improvement budget for FY 1998 totaled approximately \$81 million. As of March 31, 1999, DCPS had awarded contracts for FY 1998 capital improvement projects totaling approximately \$64 million. The actual costs for the capital projects awarded (contract and modification costs) totaled approximately \$72 million, resulting in roughly \$8 million over budget (**See Attachment I**). The remaining capital projects totaled approximately \$17 million and were deferred to future periods or cancelled (**See Attachment II**). As a result of the deferral or cancellation of capital projects in FY 1998, completion of the "immediate needs" phase of the Master Plan by the year 2000 will not be accomplished.

The Master Plan, dated July 17, 1997, is the document that outlines the objectives and schedules that the DCPS uses to implement capital projects, to stabilize, improve, and modernize the school facilities. One of the criteria used to measure the success of implementation is the time element for completing the various phases of the Master Plan.

The cost overruns were attributable to DCPS's lack of clear and concise policies and procedures regarding the CIP unit's ability for identifying, developing, costing, implementing, and monitoring capital improvement projects. Cost overruns also resulted from unforeseen problems, such as rotten roof support structures identified during construction, and compliance with Environmental Protection Agency's mandatory regulatory requirements for asbestos abatement and underground storage tank removal. This resulted in the DCPS needing more funds to complete the projects, thereby resulting in cost overruns for specific projects.

For example, USACE personnel noted that adequate time was not available to review the design and specifications for some boiler and chiller projects before contracts were awarded, which resulted in contract cost modifications. Additionally, USACE noted that all of the window projects for FY 1998 had to be redesigned, stating that "Some schools had no design work initiated while others had outdated, inadequate and, at times, conflicting specifications." As a result, only 4 of 16 schools had the windows replaced during FY 1998. It was estimated that an additional \$13.8 million would be

needed to complete the remaining 12 schools, costing approximately \$7.7 million over the initial FY 1998 budget. This was due to inadequate planning on the part of facilities management within DCPS.

Recommendations

We recommended that the Superintendent of DCPS:

1. Establish clear and concise written policies and procedures to assist in meeting the objectives of the CIP, addressing such areas as: planning, cost estimating, and monitoring.
2. Program sufficient time to properly review project designs and specifications.
3. Determine the impact of regulatory requirements when planning capital improvement projects.

DCPS RESPONSES

Recommendation 1. DCPS noted that the objectives of the CIP are being revised in a new Master Plan that is currently under review by the DC Control Board. Once the new Master Plan is approved, which should be completed by June 2000, written policies and procedures will be established for the CIP, including the areas of planning and cost estimation.

Recommendation 2. DCPS noted that the lack of time to adequately review project designs and specifications was partly due by the extent of emergency projects, particularly for heating, air conditioning, and compliance with regulatory requirements. Once they (CIP) are out of the emergency phase of capital improvements and the new revised Master Plan becomes operational, adequate time for planning and reviewing designs and specifications will be possible.

Recommendation 3. DCPS noted that there is a backlog of actions needed to fully comply with regulatory requirements. This situation was due to the limited manpower and financial resources for the last seven to eight years. They indicate that it will take several more years, or possibly longer to be in full compliance.

OIG Comments

The actions planned by DCPS for recommendations 1., and 2., should correct the conditions noted. In regard to DCPS's response to recommendation 3., we are aware that it will take several more years for DCPS to address the backlog of deficiencies to meet regulatory requirements. However, DCPS should ensure that when planning future capital improvement projects the cost ramifications of complying with regulatory requirements are considered when estimating the total cost of a project.

FINDING 2: Capital Projects Deferred to Future Periods

SYNOPSIS DCPS had to eliminate \$37.5 million of projects from the initial CIP budget for FY 1999. Projects were cancelled because DCPS erroneously projected that \$42 million would be available from the sale and lease of excess school property to fund part of the CIP budget. The funding amount was later adjusted to a more realistic figure of \$4.5 million. Because of the deferral or cancellation of capital improvement projects in FY 1998 and the reduction in the FY 1999 CIP budget, completion of the “immediate needs” phase of the Long Range Facilities Master Plan by the year 2000 will not be accomplished.

AUDIT RESULTS DCPS had to revise its FY 1999 initial capital improvement budget submitted to Congress from \$97 million to \$59.5 million. As a result, DCPS had to revisit the capital improvement budget and eliminate \$37.5 million of projects, further delaying the time frame milestones for completing the objectives of the Master Plan.

For example, the Master Plan noted that the majority of the existing school facilities did not comply with the requirements of the Americans with Disabilities Act (ADA). The goal outlined in the Master Plan was to address and comply with the ADA requirements by the end of 1999. The ADA projects (elevators) for FY 1998 were cancelled and ADA funding for FY 1999 was reduced from \$6 million to \$4 million. Also, approximately \$30 million, for stabilization and functional projects such as roofs, boilers, and chillers, was reduced from the FY 1999 capital improvement budget, which was scheduled for completion by FY 1999.

The reduction to the FY 1999 capital improvement budget was made because the DCPS did not sell or lease the surplus property as anticipated. Initially, DCPS’s Policy and Planning office issued Real Estate Sales projections, dated February 22, 1998, for CIP budget preparations. The memorandum stated projections of \$40 million from the sale of school property and \$2 million from lease income for FY 1999; however, the \$42 million was later adjusted to a more conservative figure of \$4.5 million. A DCPS official stated that the \$42 million was an unrealistic figure for the sale or lease of surplus property.

The Master Plan is the document that outlines the objectives that the DCPS uses to implement capital projects to stabilize, improve, and modernize the school facilities. One of the criteria used to measure the success is the time element for completing the various phases of the Master Plan.

Recommendation

We recommended that the Superintendent of DCPS:

4. Base any future CIP budget estimates or changes on realistic available funding sources in order to meet the goals and objectives of the Master Plan.

DCPS RESPONSES

Recommendation 4. DCPS agrees with the recommendation and expects to improve the validity of future projections with the upcoming Master Plan.

OIG Comments

The OIG accepts the DCPS's response to recommendation 4.

**Summary of Budget to Actual Fiscal Year 1998 Capital Projects
As of March 31, 1999**

FY 98 Project Category	FY 98 Budget Construction Cost + 8% Contingency	Contract & Modification Costs	Under (Over) FY 98 Budget
Roof Replacement	\$ 28,350,270	\$ 24,469,298	\$ 3,880,972
Generators	480,000	-	480,000
Boilers	10,575,012	8,969,161	1,605,851
HVAC	5,814,150	9,241,093	(3,426,943)
Sub-total Boilers & HVAC	16,389,162	18,210,254	(1,821,092)
Underground Tanks	1,876,422	8,000,000	(6,123,578)
Asbestos	1,822,502	3,818,278	(1,995,776)
Windows	911,175	1,611,440	(700,265)
Electrical Modifications	108,000	132,259	(24,259)
Elevators			
Structural Repairs	86,400	47,699	38,701
Interior Finish	162,000	174,731	(12,731)
Energy Conservation		-	-
Miscellaneous & Emergency	-	-	-
FY 1998 CIP Projects	\$ 50,185,931	\$ 56,463,960	\$ (6,278,029)
Army Corps of Engineers	2,500,000	\$ 5,006,200	(2,506,200)
Sub-Total	52,685,931	61,470,160	(8,784,229)
Other Costs:			
A & E	5,590,472	5,590,472	-
C/M and Program Mgmt	3,568,034	\$ 3,568,034	-
DCPS Personnel Costs	2,398,965	1,494,408	904,557
Total Costs	\$ 64,243,402	\$ 72,123,074	\$ (7,879,672)

**Summary of Unscheduled Fiscal Year Capital Projects
Through March 31, 1999**

FY 98 Capital Project Funds Not Allocated As of March 31, 1999	FY 98 Budget Construction Cost + 8% Contingency	Contract & Modification Costs Through 3/31/99	Under (Over) FY 98 Budget
Total Budget & Costs (Attachment I)	\$ 64,243,402	\$ 72,123,074	\$ (7,879,672)
Less Deferred Projects:			
Boilers:	4,358,569		
Chiller:	2,481,594		
Windows:	6,219,049		
Elevators :	293,760		
Structural Repairs:	644,212		
Interior Finish:	1,374,716		
Energy Conservation:	506,591		
Miscellaneous & Emergency	1,031,529		
Deferred FY 1998 Projects	16,910,020		
FY 98 Capital Project Budget	\$ 81,153,422		



**DISTRICT OF COLUMBIA
PUBLIC SCHOOLS**

Office of the Superintendent

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March 8, 2000

Charles C. Maddox, Esq.
Inspector General
Office of the Inspector General
Government of the District of Columbia
717 14th Street, NW
Washington, DC 20005

Dear Mr. Maddox:

In response to the draft report entitled "Audit of the District of Columbia Public Schools Facilities' Capital Improvement Program." (OIG-03-99-GA) and to the concerns raised therein, please find below our responses:

CONCERNS RAISED IN THE AUDIT

I. Budget overruns in FY98 Capital Improvement Program (CIP)

Although we are cognizant of the problems that were raised in the audit, and while we continue to improve the processes around which the CIP is organized, we would like to point to the long-standing nature of many of the problems, and the equally long-term period required to resolve them.

As you may know, the FY98 capital budget resulted from budget deliberations in 1997, prior to any detailing of scopes of work, and benefiting from little or no engineering investigation. As a result, planned budgets for works grossly underestimated their actual cost. Moreover, as pointed out in your report, unforeseen problems including undetected structural problems and asbestos abatement further increased costs.

In addition, because of the long-term neglect of the preventive maintenance of buildings and equipment, severe problems were encountered in a significant number of schools (such as the problems faced by some schools with underground storage tanks). Corrective action to resolve these problems began in 1998, but it will take several years to fully remediate. This has had an impact on the CIP for FY99 and will most likely continue to have repercussions in 2000 and beyond.

Finding I: Capital Projects Exceeded Budget Allocations

IG Recommendation 1: Establishing clear, concise policies and procedures to meet the objectives of the CIP

Our response: The objectives of the CIP are being revised under a new Master Plan. Currently a platform version of the Master Plan is under review at the DC Control Board, and a final version is not expected until June 2000. Once the Master Plan is approved, we will establish final policies and procedures addressing such areas as planning and cost estimation.

IG Recommendation 2: Allowing sufficient time to properly review project designs and specifications

Our response: The unanticipated extent of emergency projects, particularly in the areas of heating, ventilation and air conditioning, and regulatory requirements mandated the use of the most expedient avenues to execute mitigating steps. This in turn often reduced design times. As DCPS moves out of the current emergency problem resolution phase of capital improvements, and as the Master Plan is finalized and becomes operational, advanced planning will be possible and sufficient time will be allocated for adequate review of project design and specifications.

IG Recommendation 3: Considering the impact of regulatory requirements when planning capital projects

Our response: Over the last seven to eight years, a backlog in the actions needed to comply with regulatory requirements (Americans with Disabilities Act, policies regarding underground storage tanks, asbestos, etc.) resulted from both limited manpower and inadequate financial resources. We anticipate that addressing this backlog will require several more years; however, upcoming regulatory policies (such as one on lead paint) may further delay compliance.

II. Elimination of some projects from the CIP due to over-estimated revenue projections

As a result of the budget overruns discussed above, and due to over-estimates in revenue projections, a number of capital projects were postponed. Some of these projects were high priority and had to be postponed only because of the budget constraints. A number of projects, however, were deferred for other reasons, including gross cost under-estimates even within the initial \$81 million envelope (for example, allocations for asbestos abatement in 1998 were half the actual cost). It bears noting that the project categories coming in within budget (boilers, roofs and generators) were those for which there had been recent expenditures; therefore, more realistic cost projections could be, and were, made.

Finding 2: Capital Projects Deferred to Future Periods

IG Recommendation 4: Basing the planning and development of the capital budget on realistic funding sources

Our response: We concur with the recommendation and expect to further improve the validity of future projections with the upcoming Master Plan. We note, furthermore, that this would complement the earlier discussion of setting more realistic cost estimates for planned works.

CORRECTIONS

- * The Army Corps of Engineers contract (your Budget Table) was \$5,006,200, and not \$4,946,200.
- * The DCPS personnel cost line items (budget and actual amounts) were based on 30 persons to be assigned to the Capital Improvements. However, since Capital staffing never reached this number, the actual figures in your budget tables are too high.

Please do not hesitate to contact us if additional clarification is needed.

Sincerely yours,

 E.B.

Arlene Ackerman
Superintendent